



DEPARTMENT OF THE ARMY
UNITED STATES ARMY LEGAL SERVICES AGENCY
901 NORTH STUART STREET
ARLINGTON VA 22203-1837



REPLY TO
ATTENTION OF

30 APRIL 2004

Regulatory Law Office
U4117

SUBJECT: In the Matter of Adjustment of Gas and Electric Rates of Louisville Gas
and Electric Company, KY PSC Case No. 2003-00433

RECEIVED

MAY 03 2004

PUBLIC SERVICE
COMMISSION

Hon. Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Dear Mr. Dorman:

Enclosed for filing find the original and eleven copies of ERRATA SHEETS of Witness Kenneth L. Kincl for intervenor, the consumer interest of the United States Department of Defense and other affected Federal Executive Agencies (hereinafter "DOD") in the above styled proceeding.

Copies of this pleading are being sent in accord with the Certificate of Service. Inquiries regarding this proceeding should be directed to the undersigned at the address above or at telephone number (703) 696-1646.

Sincerely yours

David A. McCormick
General Attorney

CF: Certificate of Service
Hon. Daniel M. Kininmonth, Fort Knox, KY

**COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION**

RECEIVED

MAY 03 2004

**PUBLIC SERVICE
COMMISSION**

In the Matter of:)
)
An Adjustment of the Gas and)
Electric Rates, Terms and Conditions)
of Louisville Gas and Electric)
Company)

Docket No. 2003-00433

**ERRATA Sheet for Direct Testimony
of Kenneth L. Kincl for US Department of Defense**

Exhibits KLK-5, KLK-6, KLK-11 and KLK-12

Please see revised exhibits attached. The revisions are due to an error in the cell on both KLK-6 and KLK-12 that calculates the dividend for the next period for the high estimate.

Direct Testimony, page 4, line 9.

Delete the words "Fort Knox and."

Submitted: April 29, 2004

**Summary of Tests Results to Determine the Appropriate Regulatory Return on Common Equity
For Louisville Gas & Electric Company (Electric Service)**

<u>DCF Test Result</u>		
Range of DCF Test Results	9.0% to 9.8%	
Average DCF Test Result	9.38%	Exhibit KLK-6
<u>Historical Industry Equity Risk Premium Analysis</u>		
Equity Risk Premium for the Electric Utility Industry	4.27%	Exhibit KLK-9
Yield on 20-Year Treasury Bonds	4.95%	Average of last 12 Friday closings, as reported by Federal Reserve Statistical Releases
ROE	9.22%	
<u>CAPM</u>		
Historical CAPM Estimated ROE	10.21%	Exhibit KLK-10
Projected CAPM Estimated ROE	11.70%	Exhibit KLK-10
Average CAPM Test Result	10.96%	
Average of CAPM, Risk Premium and DCF Test Results	9.85%	
Reasonable Range provided by all three tests	9.2% - 10.2%	
KLK RECOMMENDED ROE	10.0%	

* Average of 12 Friday closing yields for Treasury fixed-income bonds with 20 years remaining to maturity, starting with week ending December 26, 2003 and continuing through March 12, 2004.

**ROE Based on Discounted Cash Flow Model
For Comparable Electric Utilities**

<u>Firm Name</u>	Average Closing Price December 17, 2003 through March 16, 2004 (\$)	Latest 12 Months Dividend (\$)	Historic Yield
Alliant Energy Corporation	25.51	1.00	3.92%
Ameren Corporation	46.48	2.54	5.46%
Consolidated Edison	43.45	2.24	5.16%
DTE Energy Company	39.55	2.06	5.21%
Exelon Corporation	66.11	2.01	3.04%
MGE Energy	31.47	1.35	4.29%
NSTAR	49.43	2.18	4.40%
Pinnacle West Capital Corporation	38.78	1.73	4.46%
SCANA Corporation	34.71	1.40	4.03%
Southern Company	29.95	1.39	4.65%
Vectren Corporation	24.73	1.11	4.49%
Wisconsin Energy Corporation	33.06	0.80	2.42%
Average of Comparable Companies			4.29%
KLK Low Growth Rate Estimate for Comparable Companies from Exhibit KLK-7			4.49%
Expected Dividend Yield Next 12 Months Over Average Price at Growth Rate for Comparable Companies			4.49%
ROE for Comparable Companies			8.98%
KLK High Growth Rate Estimate for Comparable Companies from Exhibit KLK-7			5.26%
Expected Dividend Yield Next 12 Months Over Average Price at Growth Rate for Comparable Companies			4.52%
ROE for Comparable Companies			9.78%

Source: Dividend values from Value Line Investment Survey, January 2, February 13 and March 5, 2004 (most recent on March 15, 2004).
Source: For Average Closing Prices, Yahoo Finance, Historical Quotes Database.

**Summary of Tests Results to Determine the Appropriate Regulatory Return on Common Equity
For Louisville Gas & Electric Company (Natural Gas Service)**

DCF Test Result

Range of DCF Test Results	8.6% to 10.4%	
Average DCF Test Result	9.54%	Exhibit KLK-12

Historical Industry Equity Risk Premium Analysis

Equity Risk Premium for the Natural Gas Distribution Industry	5.45%	Exhibit KLK-15
Yield on 20-Year Treasury Bonds	4.95%	Average of last 12 Friday closings, as reported by Federal Reserve Statistical Releas
ROE	10.40%	

CAPM

Historical CAPM Estimated ROE	10.75%	Exhibit KLK-16
Projected CAPM Estimated ROE	12.24%	Exhibit KLK-16
Average CAPM Test Result	11.50%	
Average of CAPM, Risk Premium and DCF Test Results	10.48%	
Reasonable Range provided by all three tests	9.5% to 10.75%	
KLK RECOMMENDED ROE	10.5%	

* Average of 12 Friday closing yields for Treasury fixed-income bonds with 20 years remaining to maturity, starting with week ending December 26, 2003 and continuing through March 12, 2004.

**ROE Based on Discounted Cash Flow Model
For Comparable Natural Gas Utilities**

<u>Firm Name</u>	Average Closing Price December 17, 2003 through March 16, 2004 (\$)	Latest 12 Months Dividend (\$)	Historic Yield
AGL Resources	28.91	1.120	3.87%
Atmos Energy	25.51	1.210	4.74%
KeySpan	36.88	1.780	4.83%
Laclede Group	29.93	1.345	4.49%
Northwest Natural Gas	31.23	1.280	4.10%
Peoples Energy	43.10	2.120	4.92%
Piedmont Natural Gas	42.18	1.660	3.94%
Average of Comparable Companies			4.41%
KLK Low Growth Rate Estimate for Comparable Companies from Exhibit KKK-13			4.05%
Expected Dividend Yield Next 12 Months Over Average Price at Growth Rate for Comparable Companies			4.59%
ROE for Comparable Companies			8.64%
KLK High Growth Rate Estimate for Comparable Companies from Exhibit KKK-13			5.76%
Expected Dividend Yield Next 12 Months Over Average Price at Growth Rate for Comparable Companies			4.67%
ROE for Comparable Companies			10.43%

Source: For both last 4 dividends and average closing prices, Yahoo Finance, Historical Quotes Database.

Certificate of Service

I certify that I have caused a copy of this document to be sent to the following addressees

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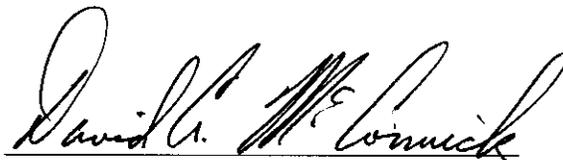
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Dated this 30th day of April 2004, at Arlington County, Virginia.



David C. McConick